THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

Western India Regional Council

**WIRC/ICAI/** 10916 **/2024** **27 November 2024**

The Secretariat
Accounting Standards Board
The Institute of Chartered Accountants of India
ICAI Bhawan, P.B. No.7100, Indraprastha Marg,
New Delhi- 110 002, India.

Dear Sir/Madam,

Please find attached comments of **Exposure Draft on Equity Method of Accounting - IAS 28, *Investments in Associates and Joint Ventures* (revised 202x)** issued by the IASB for comments.

Kindly take the same on record.

Regards,

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**Chairman - WIRC of ICAI**

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**Comments of Exposure Draft on Equity Method of Accounting - IAS 28, Investments in Associates and Joint Ventures (revised 202x)**

We commend the IASB's efforts to enhance the clarity, consistency, and comparability of accounting practices for investments in associates and joint ventures. The proposed amendments address long-standing ambiguities in IAS 28 and align its principles with other IFRS standards, such as IFRS 3, IFRS 10, and IAS 36. While we broadly support the proposals, there are areas where additional guidance or alternative approaches may further improve practicality and transparency.

**Feedback on Key Proposals**

1. **Measurement of Cost of an Associate**:
    - **Support**:
        - Including fair value of previously held ownership interests and contingent consideration in the cost aligns IAS 28 with IFRS 3 principles.
        - Ensures a comprehensive reflection of the economic cost of investments.
    - **Recommendations**:
        - Provide illustrative examples to clarify fair value measurement, particularly for contingent considerations involving unquoted associates or complex performance conditions.
        - Consider optional routing of contingent consideration remeasurement gains/losses through **Other Comprehensive Income (OCI)** to mitigate P&L volatility.

2. **Changes in Ownership Interest**:
    - **Support**:
        - Full gain/loss recognition for partial disposals and changes due to associate transactions enhances consistency and comparability.
    - **Concerns**:
        - Full recognition of gains or losses may inflate reported profits when indirect control over the associate is retained.
    - **Recommendations**:
        - Allow optional recognition of gains/losses through OCI for ownership changes that do not represent a complete economic exit.

3. **Recognition of Share of Losses**:
    - **Support**:
        - Clear separation of profit or loss and OCI improves transparency.
        - No retrospective adjustment for previously unrecognized losses aligns with principles of proportional recognition.
    - **Recommendations**:
        - Mandate disclosure of unrecognized losses to improve stakeholder visibility into potential future impacts on profitability.

4. **Transactions with Associates**:
    - **Support**:
        - Full recognition of gains or losses from upstream and downstream transactions aligns with IFRS 10 and reflects the economic substance of transactions.
    - **Concerns**:
        - Potential risk of double-counting gains in cases where the associate's financial statements already reflect the transaction.
    - **Recommendations**:
        - Provide guidance on mitigating risks of double-counting, particularly for recurring inter-entity transactions.

5. **Impairment Indicators**:
    - **Support**:
        - Comparing fair value with carrying amount instead of cost ensures alignment with post-acquisition adjustments and goodwill.
        - Removing "significant or prolonged decline" thresholds reduces subjectivity.
    - **Concerns**:
        - Frequent impairments due to short-term market volatility may overstate losses.
    - **Recommendations**:
        - Introduce an optional quantitative threshold (e.g., X% decline in fair value) to trigger impairment.
        - Emphasize alignment with **IFRS 13 (Fair Value Measurement)** for consistency in valuation techniques.

6. **Enhanced Disclosure Requirements**:
    - **Support**:
        - Expanded disclosures on contingent consideration, ownership changes, and reconciliation of investment balances improve transparency.
    - **Recommendations**:
        - Simplify disclosure requirements for entities with minimal transactions to reduce administrative burdens.

7. **Transition Requirements**:
    - **Support**:
        - Retrospective application where practicable balances consistency and comparability.
    - **Recommendations**:
        - Provide detailed examples and guidance on transitioning for complex areas, such as fair value remeasurement of previously held interests.

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**Expected Benefits and Challenges**

1. **Benefits**:
    - Enhanced transparency and comparability across entities.
    - Alignment with broader IFRS principles reduces inconsistencies and ambiguity.
    - Clearer guidance improves stakeholder confidence in financial reporting.

2. **Challenges**:
    - Increased administrative costs for preparers, particularly for fair value estimation and expanded disclosures.
    - Volatility in profit or loss due to full recognition of gains/losses and impairment changes.

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**Conclusion**

We strongly support the IASB's intent to modernize and clarify IAS 28, ensuring its alignment with current IFRS standards and addressing key ambiguities. However, we recommend further consideration of alternative treatments (e.g., use of OCI) and enhanced guidance to mitigate implementation challenges and reporting volatility.